
WEEKLY FINANCIAL SERVICES REPUBLICAN ROUND-UP 3.12.2010

MESSAGING RESOURCES/POLLING UPDATE

Financial Reform Legislation Will Not End Taxpayer Bailouts If It Fails To Include Reform Of Fannie Mae And Freddie Mac. The two GSEs were at the center of the mortgage market meltdown that caused the financial crisis. H.R. 4173, the so-called "Wall Street Reform and Consumer Protection Act" that narrowly passed the House of Representatives on December 11, 2009, failed to include a single provision to address the status of the two companies. In addition, the Administration failed to comply with its own commitment to develop recommendations on the future of Fannie Mae and Freddie Mac as part of the President's 2011 Budget release. Taxpayers have already contributed more than \$127 billion to the bailout and they are on the hook for hundreds of billions more. Taxpayers now own at least 80 percent of these two companies, and have explicitly guaranteed \$1.7 trillion of their debt and over \$5 trillion in mortgages they have purchased. Americans deserve an immediate exit strategy. If the Administration is unwilling to provide one, Congress must move forward on its own to protect taxpayers and effectively address the biggest systemic risk to the financial markets and the economy.

Government Intervention, Not A Lack Of Regulation, Caused The Financial Crisis. The Obama administration and many Democrats in Congress have insisted that the financial crisis was caused by a lack of regulation and a failed free market philosophy, requiring government intervention on the scale of the New Deal to "re-regulate" finance. In truth, the crisis was caused by misguided government policies to allocate credit (via Fannie Mae and Freddie Mac) and later exacerbated by ad hoc government interventions to prop up failed financial institutions.

The Fed Has Done A Poor Job Of Identifying And Addressing Systemic Risks Before They Become Crises. The Fed's track record as the regulator of the largest financial firms in the run-up to the recent crisis hardly inspires confidence in its ability to identify and monitor "systemic risk." And yet the regulatory reform legislation that House Democrats passed in December (H.R. 4173) massively expands the Fed's authority and gives it primary responsibility for preserving "financial stability." It is hard to remember a circumstance in which regulatory failure has been so richly rewarded with sweeping new powers.

We Need An Exit Strategy From The Unsustainable Deficits And Federal Reserve Interventions. Rather than broadening the Federal Reserve's mission and further enshrining a failed government policy of rescuing "too big to fail" institutions, regulatory reform legislation should scale back the Fed's authorities so that it can focus on conducting monetary policy and unwinding the trillions of dollars in obligations it has amassed during the financial crisis. When combined with the administration's reckless "borrow-and-spend" fiscal policy, the vast expansion of the Fed's balance sheet arguably represents a far more significant source of "systemic risk" to our nation's economy than the failure of any specific financial institution.

Polling

Rasmussen: "57% Predict Health Care Plan Will Hurt The Economy... Fifty-seven percent (57%) of voters say the health care reform plan now working its way through Congress will hurt the U.S. economy. A new Rasmussen Reports national telephone survey finds that just 25% think the plan will help the economy. But only seven percent (7%) say it will have no impact. Twelve percent (12%) aren't sure."

Fairleigh Dickinson University PublicMind: "67% of Americans oppose Internet gambling...A new poll finds most Americans oppose Internet and half oppose sports betting, but many have gambled themselves at a casino."

ON THE HORIZON

Tuesday, March 16: The International Monetary Policy Subcommittee will meet for a hearing on Haiti at 10 am in room 2128 Rayburn.

Wednesday, March 17: The Full Committee will convene for a hearing entitled, "The Administration's Proposal to Revitalize Severely Distressed Public and Assisted Housing: The Choice Neighborhoods Initiative" at 10 am in room 2128 Rayburn. At 2 pm, the Full Committee will meet for a hearing entitled, "Examining the Link Between Fed Bank Supervision and Monetary Policy."

Thursday, March 18: The Capital Markets Subcommittee will meet for a hearing entitled, "Insurance Holding Company Supervision" at 10 am in room 2128 Rayburn.

WEEKEND MUST-READS

Wall Street Journal: "Where Is GMAC Exit Strategy? Asks Panel ... The U.S. Treasury Department has no clear exit strategy for its investment in GMAC Financial Services, raising the specter of billions in potential losses, a congressional watchdog said in a report Thursday."

Washington Post: "Politics, shaky economy create no rush to restructure Fannie and Freddie ... The federal government has spent the past half year seeking to roll back its emergency efforts at propping up the financial markets -- with the notable exception of its involvement in mortgage giants Fannie Mae and Freddie Mac."

Washington Post: "FHA considers down payment requirements ... The Federal Housing Administration has concluded that its loan volume would have dipped by 40 percent in the next fiscal year and that 300,000 first-time home buyers would have been shut out of the housing market if it had raised its down payment requirements, as critics have pressured it to do, a top housing official plans to tell Congress on Thursday."

Wall Street Journal: "AIG's Rankings Will Weigh on Pay ... American International Group Inc. is basing its upcoming round of bonuses and incentive pay on its new "forced ranking" system that measures the performances of about 10,000 employees, according to people familiar with the matter."

Washington Post: "Wall Street's role in Greek crisis should be no surprise ... As I look at the uproar over Wall Street's role in the Greek crisis, one of the things I find most surprising is that anyone is surprised about Wall Street's conduct."

Wall Street Journal: "Fed to Expand Counterparties for Reverse Repos ... The Federal Reserve Bank of New York on Monday said it will expand the circle of financial firms it deals with to include domestic money-market funds as it seeks to shrink its \$2 trillion balance sheet."

REPUBLICANS IN THE NEWS

Rep. Shelley Moore Capito issued these press releases: Capito on Federal Housing Administration Reform; Capito Introduces Legislation to Reform Federal Housing Administration, Prevent Taxpayer Bailout

Rep. Spencer Bachus issued these press releases: Bachus Urges Senate To Address Fannie, Freddie Failures In Financial Regulatory Reform Legislation; Bachus: More Oversight of CDFI Program Needed; Bachus: Uniform Regulation Of Money Services Businesses Needed To Protect Consumers And The Financial System

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